Avalara
Tax compliance done right

The Rise of E-invoicing

— The Direction of Travel

Avalara
Tax compliance done right

Contents

Overview

> Until just over a decade ago, businesses could choose to adopt digital processes to replace their manual paper-based procedures in their finance departments with automation. For compliance purposes, invoices still needed to be issued and stored as paper originals in most cases.

Fast forward to today, the use of electronic invoicing among businesses is widely adopted. In fact, the global e-invoicing market reached a value of US$ 8.74 billion in 2021. Looking ahead, the market is expected to reach **US$ 29.68 billion by 2027**, with governments around the world no longer accepting paper invoices for payment.

E-invoicing is now mandated by a growing number of governments globally: 83 countries currently have some kind of e-invoicing or e-reporting legislation that covers voluntary e-invoicing for efficiency and mandatory e-invoicing for compliance. The time for optional finance transformation is over.

Paper invoices are quickly becoming a relic of the past. It's time to experience the future of business automation with e-invoicing. In this e-book, we will explain what e-invoicing is, how different governments are handling e-invoicing mandates and what you can do to protect your business operations against the backdrop of developing regulatory requirements.

E-invoicing 101

If you're immersed in the professional finance world, you may be aware that governments are rolling out e-invoicing mandates. Their goal is to limit the damaging impact of the 'hidden economy' and drive efficiency through technology. But what exactly is e-invoicing?

In essence, e-invoicing is the digital transformation of manual invoicing practices that eliminates the need for paper-based invoice documents by replacing them with electronic alternatives. At a glance, PDF invoices may seem like e-invoices in that they are electronic documents. However, generating PDFs, emailing them to the recipient and processing them still requires human intervention. In contrast, e-invoicing is concerned with automating processes across the entire invoicing lifecycle, from issuance to archiving.

Increasingly, businesses worldwide recognise the advantages of streamlined e-invoicing processes. Not only does e-invoicing ensure accuracy by removing the risk of human error, but it also helps to expedite time-consuming, tedious tasks for finance teams and boost efficiency. With the increased digitisation rate in the public sector, authorities increasingly leverage technology to exchange data with suppliers and optimise tax collection processes.

Five years ago, sluggish digital transformation would only result in declining competitiveness in the private sector. But the negative impact of the global pandemic on public spending combined with the growing demand for digitalisation has accelerated governmental plans for the digital transformation of tax, which businesses cannot avoid. More and more governments are introducing mandatory e-invoicing regulations. Tax regimes in individual countries are digitalising rapidly, leaving some businesses scrambling to catch up.

The clock is ticking for businesses of all shapes and sizes to modernise their invoicing systems and remain compliant with changing legislation.

Practical Benefits of E-invoicing

> On the one hand, e-invoicing naturally means a substantial change in invoicing processes — something that some finance functions may view with trepidation.

On the other hand, however, e-invoicing offers a wealth of advantages to businesses. We can split anticipated benefits into four categories:

1. Automation
2. Compliance
3. Control
4. Sustainability

Combined, the benefits of e-invoicing result in one of the most impactful outcomes a business can achieve: cost savings.

Automation

Automation can be a worrying term in the world of work. However, the concerns can be effectively countered by the benefits that automation provides not just to the business as a whole, but also the employees themselves on a daily basis.

Automation of the invoicing process opens up a world of opportunity for Accounts Payable (AP) and Accounts Receivable (AR) staff by transforming their roles from data entry clerks into business analysts. By eliminating tedious, paper-intensive processes, employees in finance departments get an opportunity to work on added-value tasks, leveraging data for business analysis and smarter business decisions.

Effectively automating finance processes also slashes departmental costs, making e-invoicing a more affordable option compared to paper invoices. With paper invoicing, businesses need to budget for the direct costs of the materials, printing and delivery, plus indirect costs related to the time and labour sunk into manual processing. The pennies quickly add up.

In fact, a report by Billentis estimates that automated e-invoicing will result in huge savings of around **60-80%** compared to conventional paper invoice processing. Additionally, by removing the need for human intervention, e-invoicing ensures the invoice is correct the first time by transferring data directly from system to system. Data integrity is guaranteed, freeing up a significant portion of time that AP teams would otherwise spend rectifying data errors.

An automated AR system also empowers businesses to receive payments promptly, given that invoices are available to recipients immediately. By eliminating bottlenecks resulting from troublesome late payments, businesses can improve cash flow and staff are relieved from the pressure of chasing unpaid bills. Getting paid on time is crucial to business leaders, supplying the funds they need to promptly invest in their companies and drive growth.

Compliance

Tax authorities all over the world might be on the same page when it comes to the perceived need for e-invoicing and tax digitalisation. However, compliance is never uniform. Each tax authority has its own independent requirements, deadlines, platforms... the list goes on.

The complex international landscape poses a significant challenge for global businesses, which must abide by each country's e-invoicing and tax regulations. Failing to do so could result in hefty fines and disruptive audits. For instance, to ensure invoices are reported correctly, the Italian government has set penalties of €2 for each invoice not submitted to the SDI, up to a maximum of €400 per day. However, if the taxpayer submits the invoice to the SDI within 15 days of the deadline, the penalty will be halved.

A flexible and robust e-invoicing solution can continuously adapt to compliance changes. It will generate accurate invoices, issue them within the correct deadlines and ensure that they are submitted through the correct platform so that finance functions can rest assured of their business' full compliance.

Control

A key problem with manual invoice processing lies in the lack of control finance functions have over the sensitive data the documents contain. Once the data is inputted and sent off, there's no guarantee that the invoice will reach its intended destination problem-free.

Furthermore, the data flowing through AP departments is often in different formats and stored in disparate silos that make it impossible to use strategically. As data is an essential component of competitive business strategies, paper invoicing is even more wasteful than it initially appears.

E-invoicing offers a reliable solution for finance teams hoping to gain better control over their data and how they use it. The technology provides end-to-end visibility for both incoming and outgoing invoices, minimising the risk of lost sensitive information. Most importantly, the data extracted from the invoices is standardised, organised and usable, meaning that finance teams gain critical insights into their income and outgoings to make smarter business decisions.

Sustainability

In 2021, world leaders and environmental experts took to the stage at COP26 in Glasgow, urging both private and public entities to ramp up their environmental endeavours in an effort to mitigate the risks of global warming.

It is, therefore, no surprise that governments across the globe are setting ambitious commitments to limit carbon emissions, which are increasingly backed by new regulations and taxes. In addition, there has been a shift in consumer attitudes in recent years. People have a greater understanding of their contribution to the planet and choose to invest in greener businesses.

It can be easy to overlook the back-end running of a company when it comes to implementing eco-friendly initiatives. However, finance departments are a haven for paper-intensive processes that directly affect deforestation rates. E-invoicing gives companies a simple yet powerful way of contributing to their environmental, social and corporate governance (ESG) targets and reducing their carbon footprint.

Depending on the business size (and the number of invoices issued), companies adopting e-invoicing would gain the economic advantages of an automated system while significantly reducing their paper waste and carbon footprint. Achieving a more eco-friendly back-office will work in the company's favour by catering to the eco-conscious stakeholders, employees and customers they target.

Variations of E-invoicing and Digital Reporting

A growing number of countries are putting mandatory e-invoicing requirements in place — however, they're not doing so in a standardised manner. These variations in e-invoicing requirements make international compliance at scale a nightmare for global businesses.

Types of transactions

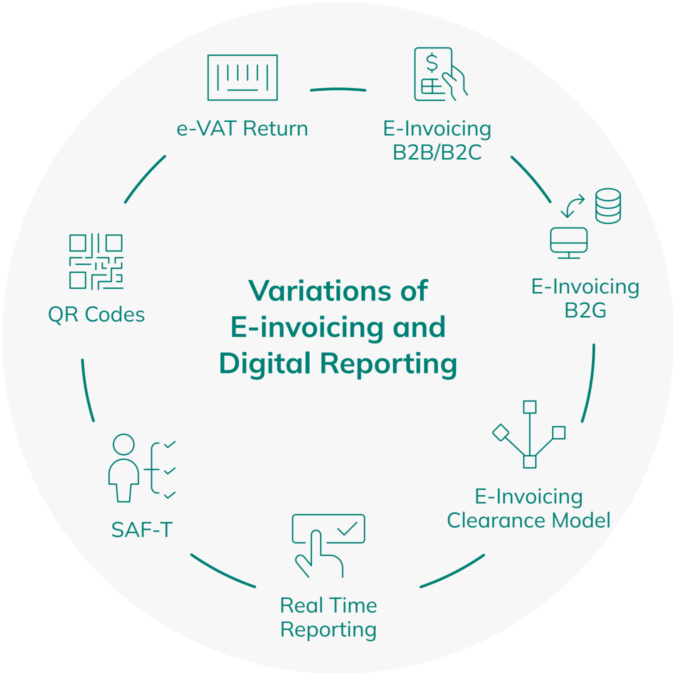
Most of the e-invoicing requirements now in place started off by targeting Business to Government (B2G) transactions. In other words, businesses must support e-invoicing to transact with government agencies in the countries where B2G e-invoicing is mandated.

Governments often push the widespread adoption of B2G e-invoicing as a first step in optimising the public procurement process. From there, governments encourage businesses to embrace e-invoicing in Business-to-Business (B2B) transactions.

For example, France introduced e-invoicing mandates on B2G transactions in 2017. The next phase is to impose mandatory B2B e-invoicing and e-reporting from July 2024. A similar situation unfolded in Greece, where B2G e-invoicing has been mandatory since 2019. Mandatory B2B e-invoicing was then introduced late in 2021.

Other countries are taking this even further and mandating e-invoicing for every transaction, including Business-to-Consumers (B2C). For instance, Saudi Arabia intends to roll out its e-invoicing mandate in stages for full implementation in 2023, and it will cover B2G, B2B and B2C transactions.

With every country approaching e-invoicing in its own way (and on its own trajectory), it's easy to see how cross-country compliance may be challenging for global businesses.



Post-audit vs clearance model

There are currently two different e-invoicing models required by governments for compliance reporting.

Post audit model: In this model, business partners issue, receive and archive invoices. Regulation requires businesses to ensure the authenticity, integrity and legibility of these invoices for up to a decade later, similar to the requirements related to paper invoices. At the end of the tax period, the tax authorities then operate regular VAT and anti-fraud checks on company records and archived e-invoices.

The post-audit model does not require providing invoice data in structured format to the tax authority. This model is currently used in most European countries; however, more and more countries are moving towards the clearance model for e-invoicing.

Clearance model: This model involves three parties: the seller, buyer and tax administration. Before the issue of each invoice, the supplier of the goods or service must receive authorisation from the tax authorities. Prior to sending the e-invoice to the buyer, the e-invoice is registered with the tax authority that approves it. The administration is, therefore, immediately aware of the VAT that's collected.

In 2019, Italy became the first European country to make the move to the clearance model. The Italian clearance model relies on an exchange server called SDI (*Sistema di Interscambio*) between the invoice sender and receiver. SDI records, transmits and archives the invoices. In return, it produces follow-up information on the invoice processing end. The system manages the delivery code required on each invoice by law and inserts the VAT numbers of both parties, favouring greater transparency.

Real-time reporting

E-invoicing and real-time reporting are closely related. As e-invoices carry important data for tax collection, tax authorities in Europe, Brazil, Argentina and China have started leveraging technology to move towards digital VAT reporting.

Introducing mandatory e-invoicing establishes a mechanism for reporting business transactions (and relevant indirect tax information) at the moment of the invoice issuance. Real-time VAT reporting enables the transfer of relevant invoice data to the tax authorities immediately.

Spain is just one example of a jurisdiction that has mandated real-time tax reporting in conjunction with e-invoicing. Currently, the Spanish tax authority (AEAT) receives transactional information from certain taxpayers through the Suministro Inmediato de Información (SII) up to four working days from the issue or receipt of an invoice.

In the future, other jurisdictions will likely follow suit. Real-time reporting paired with e-invoicing will enable tax authorities to gain unprecedented visibility into transactions while making VAT reporting much simpler for businesses.

QR codes in e-invoicing

In some jurisdictions, businesses must include a QR (quick response) code on their invoices. For instance, Portuguese companies are required to include a QR code on all invoices as of January 2022.

The QR code acts as a single point of reference for invoices. It can contain dozens of fields that provide data about a particular invoice, and most of these fields will need to be linked (or "mapped") using SAF-T.

The main benefit of mandating QR codes on invoices is that they can hold a lot of data using a compact graphic element. In addition, QR codes are easy to process for IT systems.

E-VAT return

Some countries, like the UK, are rolling out initiatives that will mark the end of the VAT return as we know it.

In the UK, the initiative is known as "Making Tax Digital" (MTD), and its aim is for tax to go fully digital to enhance collection mechanisms while making tax administration more effective, efficient and simpler for taxpayers. It requires VAT-registered businesses to keep digital VAT records and submit their VAT return to the UK's tax authority (HMRC) using MTD-compatible software. In turn, e-invoicing will become a compliance requirement.

Consequently, e-VAT amounts will be more accurate, and there will be a reduced risk of costly but avoidable mistakes. It is expected that other countries will follow on similar paths.

The Digitalisation of the Tax Landscape

The digitalisation of tax administration is happening at a rapid speed. Not only are tax authorities seeing the benefits of using e-invoicing technology to underpin their tax collection efforts, but widespread digital transformation is paving the way for businesses to automate and optimise their AP and AR processes.

Technologies facilitating the move away from manual invoicing are already in place, such as the PEPPOL standard.

PEPPOL

At its most basic, PEPPOL is a set of standard rules used for the secure transfer and retrieval of electronic business documents, mainly used for activities related to e-invoicing. It consists of an extremely secure, international network that allows companies to exchange business-critical electronic documents with everyone who has registered as part of the PEPPOL network.

PEPPOL was developed as an EU standard to solve the cross-border interoperability issues in electronic procurement. It works by aligning business processes using common standards, addressing common legal issues and developing open source technologies.

As of April 2020, all public institutions and authorities in the EU have been mandated to receive only PEPPOL invoices. The standardisation makes it much easier for companies to trade throughout Europe as you no longer need to deal with disparate national systems. Even though it originated in the European Union, the PEPPOL network is today adopted by organisations and governmental institutions in many other parts of the world — including Avalara, which is a certified PEPPOL service provider.

Consumer behaviours

On a broader scale, the digitalisation of tax has its roots in shifting consumer attitudes. Society is now global, and a growing portion of the population are becoming digital consumers — even more true since the COVID-19 global pandemic. Although, it would be foolish to state that the health crisis was the catalyst for tax authorities' digital transformation. The truth is, we've all been on the path to digital for years now — the pandemic simply accelerated that journey.

With the digital economy growing rapidly, tax authorities had little option but to reassess the way they collect VAT from companies operating across borders. The globalisation trend has meant that businesses can now reap the benefits of tech-driven finance departments and tax technology.

For instance, before the move to e-invoicing, tax teams were often impeded by sequential processes, as analytics couldn't happen until after year-end when the books are closed and the tax returns are done.

The digitalisation of tax and invoicing, on the other hand, empowers processes to flex as needed, allowing tax to respond to business needs as they occur. In other words, the free flow of (accessible and structured) data gives key insights into transactions to drive business agility and resilience.

The bottom line is that both administrations and businesses stand to gain a lot from the digitalisation of tax — and e-invoicing is just the beginning of this digital tax revolution.

Futureproof Your Business with E-invoicing

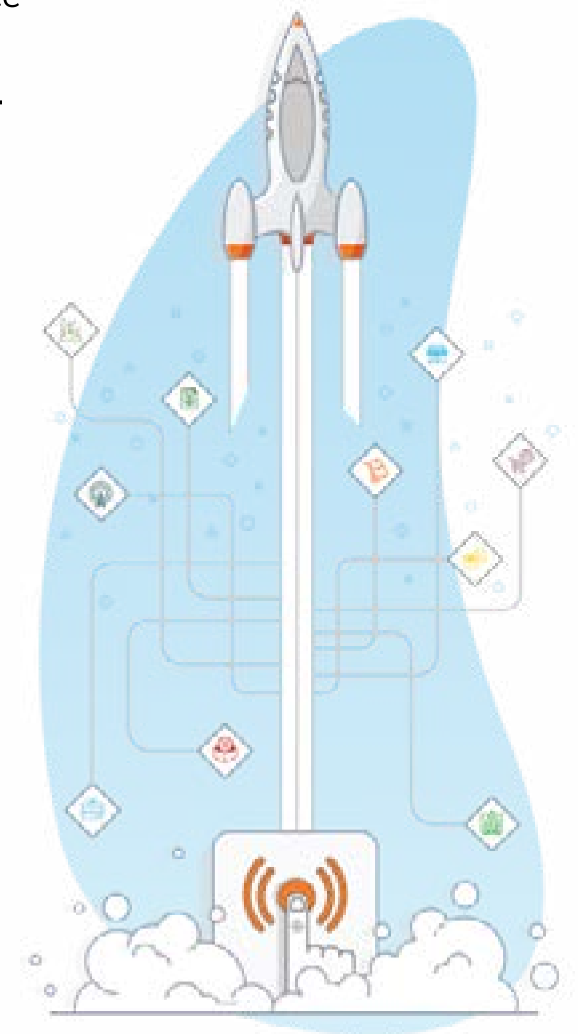
Getting ahead of the e-invoicing curve arms your business with increased resilience at a challenging time. As we head into the future of tax digitisation, mandatory e-invoicing and e-reporting requirements are only going to become more frequent. Therefore, the early move to e-invoicing could become critical to stay compliant with the array of national regulations that administrations are imposing.

The cost of doing nothing could be detrimental to your enterprise. Not only do you risk non-compliance with regulations, but you may fall by the wayside while competitors prioritise their financial transformation journeys, eliminating inefficiencies and focusing efforts on extra value tasks.

But there is more. Very often, the implementation of e-invoicing and digitisation of processes in the finance department rings the bell for larger, company-wide digitisation and automation projects.

A significant part of an entire business process goes into back-office jobs related to financial accounting and invoice processing. Deploying technology such as Robotic Process Automation (RPA) for manual tasks here is extremely impactful, providing touchless business automation and reducing manual effort, cost and human error. In addition, your business will likely see a ripple effect from this action.

There's no time to waste when it comes to e-invoicing. Manual invoicing is error-prone, outdated and ineffective, and it will soon become a compliance nightmare for enterprises. A flexible e-invoicing solution that can adapt to developing requirements will keep your organisation's compliance running on auto-pilot, free up resources and empower leaders to enhance the digitalisation of the whole business.



Additional Resources

At Avalara we're on a mission to educate and prepare our customers for the future of e-invoicing. We understand that achieving compliance in a complex, fragmented, and constantly changing landscape is not easy, especially when non-compliance is not an option. The following resources can help you on your journey:

E-invoicing & VAT in the Digital Age

In this eBook we provide an update on global e-invoicing mandates in the here and now, as well as highlight what's to come in the next few years.

There is a particular focus on France, Germany and Spain, especially in light of the European Commission's 'VAT in the Digital Age' initiative and the recent public consultation looking at increasing the use of e-invoicing across the EU, as well as a potential step towards a more harmonised set of requirements for e-invoicing and cross-border digital reporting.

Our authors also provide expert commentary on the new French-German standard (Factur-X / ZUGFeRD), and conclude by offering up some key e-invoicing trends and commercial takeaways.

How to Successfully Implement an E-invoicing Solution

E-invoicing is a change that most companies will need to embrace — either now, or in the very near future. However, it's not always easy convincing stakeholders that the investment is worth the payoff, particularly in today's post-lockdown environment.

In this eBook, we provide guidance on how to secure buy-in from key stakeholders and provide a step-by-step guide on how to successfully implement an e-invoicing solution.

The aim is to empower future-thinking business leaders with the information they need to reap the rewards of a more streamlined, digitally driven finance department.

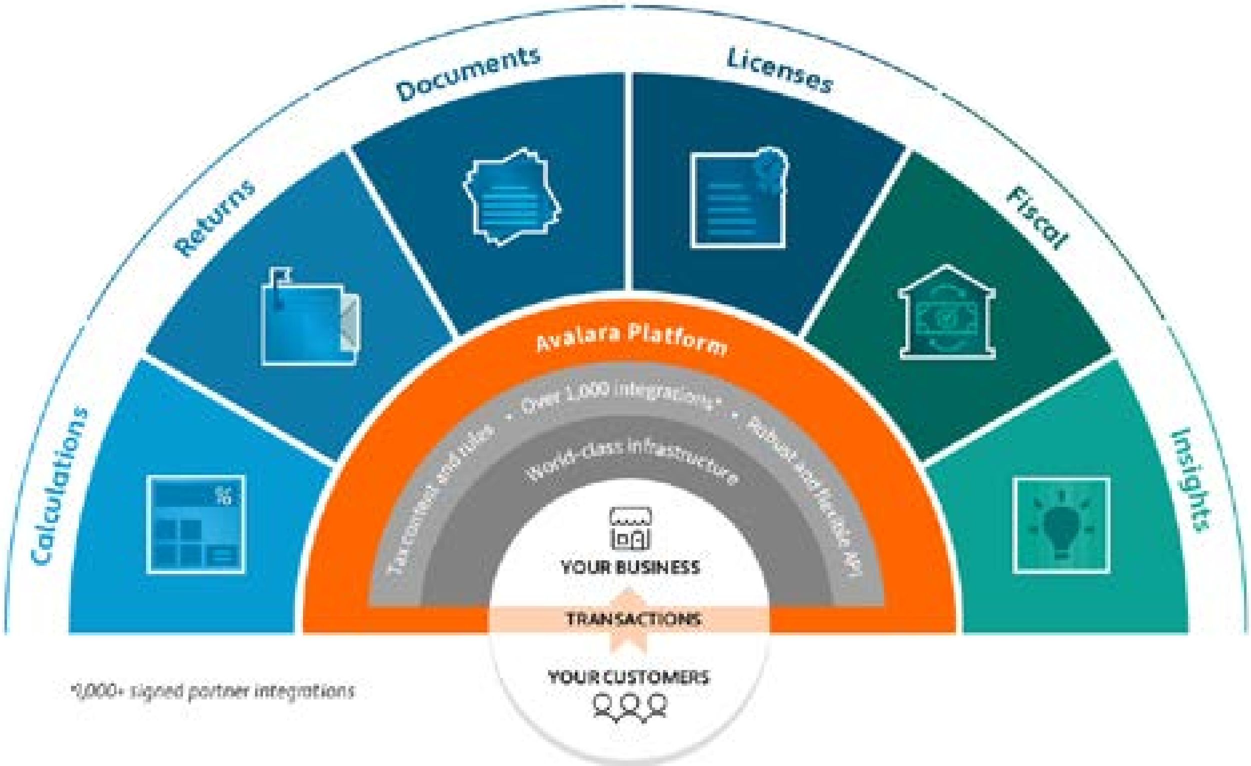
Why Choose Avalara as an E-invoicing Partner?

If your organisation operates across multiple geographies, ensuring regulatory compliance with worldwide tax and e-invoicing mandates is going to be a challenge. Compliance in these areas is complex, fragmented and constantly changing — and non-compliance isn't an option when the stakes are so high.

At Avalara, we make e-invoicing compliance simple. The Avalara e-Invoicing solution is compliant with local e-invoicing regulations in over 60 countries and we've got the future covered, too. This cloud-based solution is flexible and allows you to quickly respond to new requirements.

Avalara is the go-to expert for business compliance software. We offer a broad portfolio of software products related to e-invoicing, such as tax compliance software, to keep business-critical functions running smoothly, no matter what may crop up in the future.

Don't leave compliance up to chance. Futureproof your finance function now with an automated e-invoicing solution. Contact our team for more information.



Tax compliance done right

Avalara helps businesses of all sizes achieve compliance with transactional taxes, including VAT, sales and use, excise, communications, and other tax types.

Our comprehensive, automated, cloud-based solutions that are fast, accurate, and easy to use. Our Compliance Cloud™ platform helps customers manage complicated and burdensome tax compliance tasks imposed by state, local, and other taxing authorities throughout the world. Avalara offers more than 500 hundred pre-built connectors into leading accounting, ERP, ecommerce and other business applications. Each year, we process billions of indirect tax transactions, file hundreds of thousands of tax compliance documents and tax returns, and manage millions of exemption certificates and other compliance-related documents.

More information at: avalara.com/eu